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HAMBRO CANADA LIMITED

1977 ANNUAL REPORT

HAMBRO CANADA LIMITED

DIRECTORS AND OFFICERS

J. F. Kay
Chairman of the Board, Director

H. F. Teney, Q.C.
President and Chief Executive Officer, Director

J. B. L. Thomas
Executive Vice-President and Treasurer, Director

J. T. Eyton, Q.C., *Director*

M. A. Jacobs, *Director*

F. Y. McCutcheon, *Director*

H. P. Milavsky, *Director*

R. F. Ruben, *Director*

J. W. Lay, *Secretary*

AUDIT COMMITTEE

J. T. Eyton, Q.C., *Chairman*

F. Y. McCutcheon

J. B. L. Thomas

J. W. Lay, *Secretary*

AUDITORS

Clarkson, Gordon & Co..

HEAD OFFICE

P.O. Box 174, Toronto-Dominion Centre
Toronto M5K 1H6, Ontario

HAMBRO CANADA LIMITED

TO THE SHAREHOLDERS:

Earnings for the year ended December 31, 1977 before extraordinary items were $3,770,000 compared with $1,275,000 for 1976. After extraordinary items earnings were $8,187,000 compared with a loss of $171,000 for 1976. These equate before extraordinary items to 51¢ per share compared to 17¢ per share and after extraordinary items to $1.10 per share compared to a loss of 3¢ per share. The carrying value of the investment in McIntyre Mines Limited was written down by a further $2,663,000 and this amount has been deducted in arriving at the net gain of $4,417,000 in extraordinary items.

During 1977 your Corporation, in keeping with its announced intentions, commenced liquidating certain of the assets of the wholly owned subsidiary Peel-Elder Developments Limited. In August, Peel-Elder sold residential and other lands totalling 165 acres near Brampton, Ontario for approximately $13 million which was paid as to $3.5 million in cash and as to $9.5 million by way of mortgage receivable. In June and September the common share investment in Canada Trustco Mortgage Company, was sold for approximately $14 million in cash. In December, Peel-Elder sold certain rental properties around Toronto, Ontario, mainly high rise apartment buildings and townhouse residential units, for approximately $49.5 million which was paid as to $13.5 million in cash and as to $36 million in mortgages and other liabilities assumed. Your Corporation has applied the proceeds of these dispositions to reduce bank loans by approximately $31 million. The intention is to continue liquidation of certain of the assets of Peel-Elder.

Peel-Elder's present operations are primarily in the leasing and management of its shopping centres, administration of its mortgage portfolio and the sale and liquidation of its remaining properties.

Peel-Elder owns and operates 3 modern, enclosed mall, regional shopping centres having an aggregate net rentable area of approximately 1,013,000 square feet. The centres are Shoppers' World Danforth and Shoppers' World Albion located in Toronto, Ontario and Shoppers' World Brampton, located in Brampton, Ontario. The three shopping centres contain approximately 275 stores and each includes a major department store, a leading food supermarket and a representative cross-section of Canada's leading retailers. Peel-Elder also owns the Village Square, a neighbourhood shopping centre located in Brampton having a net rentable area of approximately 29,000 square feet. Peel-Elder's mortgage portfolio has arisen primarily from the disposition of its real estate assets. Substantially all of the mortgages are first mortgages secured on real estate sold by Peel-Elder in or near Toronto, Ontario. Peel-Elder also owns commercial, industrial, residential and other lands in various stages of development near Toronto, Cambridge and Brampton, Ontario and Winnipeg, Manitoba.

Your Corporation's ordinary earnings from these real estate activities were $1.9 million in 1977 including earnings of $3.3 million from the sale of 109 of the 165 acres referred to above but before taking into account any gains from the other dispositions referred to.

Net income of Foodex Systems Limited, in which your Corporation has a 56.4% interest, was $2,958,584, or 66¢ per share compared to $2,928,034 or 66¢ per share for 1976, after giving effect to a restatement of earnings for 1976.

Expansion of the Ponderosa Steak House chain continued during 1977 and at the end of the year 93 units were open and two were under construction. Three more Frank Vetere's Pizzeria and Tavern units were put into operation during the year and seven were open at the end of December while three more were under construction at that time. The Foodex meat plant, now into its third year, continues to operate most satisfactorily and will be expanded during 1978 so that all meat requirements for Foodex's restaurant chain and outside sales can be met.

Your Corporation's offer to purchase up to 1.2 million common shares of North Canadian Oils Limited at $10.50 U.S. per share net, was successful and your Corporation now owns approximately 21.6% of the outstanding shares of that corporation.

On April 21, 1978 notice was given of the intention to redeem, on May 21, all of the outstanding redeemable preference shares of the Corporation at $4.35 (Canadian Funds) per share.

On Behalf of the Board of Directors

Chairman | *President*

May 16, 1978.

HAMBRO CANADA LIMITED

CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 1977

(with comparative figures for 1976)

	1977	1976 (restated) (note 1(b) (i))
Equity in earnings of unconsolidated subsidiaries —		
Foodex Systems Limited (less $280,000 in 1977 being dilution of equity on issue of Treasury shares by Foodex) (note 1(b) (i))	$ 1,451,000	$ 1,725,000
Ontario Trust Company (note 3(a))		930,000
Profit (loss) on real estate operations (note 2)	1,900,000	(1,179,000)
Dividends and interest (including interest income of $371,000 (1976 — $811,000) on advances to wholly-owned real estate subsidiary)	1,044,000	1,160,000
Net gain (loss) on investments	76,000	(578,000)
Other income	368,000	468,000
Earnings before the undernoted	4,839,000	2,526,000
General and administrative expenses	960,000	658,000
Interest on bank indebtedness	148,000	218,000
Minority interest	73,000	115,000
	1,181,000	991,000
Earnings before income taxes and extraordinary items	3,658,000	1,535,000
Income taxes (recovery) (note 10)	(112,000)	260,000
Earnings before extraordinary items	3,770,000	1,275,000
Extraordinary items (note 12)	4,417,000	(1,446,000)
Earnings (loss) for the year (note 1(b) (i))	$ 8,187,000	$ (171,000)
Earnings per common and preference share (note 9):		
Earnings before extraordinary items	$ 0.51	$ 0.17
Earnings (loss) for the year	$ 1.10	$ (0.03)

(See accompanying notes to consolidated financial statements)

HAMBRO CANADA LIMITED

INCORPORATED UNDER THE LAWS OF ONTARIO

ASSETS

	1977	1976 (restated) (note 1(b) (i))
Cash and short-term deposits	$ 1,782,000	$ 1,771,000
Trading securities (quoted market value: December 31, 1977 — $70,000; December 31, 1976 — $307,000)	55,000	294,000
Receivables:		
Mortgages, loans and other receivables (note 4)	250,000	1,135,000
Due under employee share purchase plans (note 5)	1,069,000	1,069,000
	1,319,000	2,204,000
Investments (see Consolidated Summary of Investments — Appendix A) (quoted market value: December 31, 1977 — $14,770,000; December 31, 1976 — $29,713,000) (notes 1(b)(i) and 3)	23,118,000	36,159,000
Real estate assets of wholly-owned subsidiary (note 2)	71,691,000	121,794,000
Other assets	33,000	339,000
	$97,998,000	$162,561,000

(See accompanying notes to consolidated financial statements)

CONSOLIDATED BALANCE SHEET
DECEMBER 31, 1977

(with comparative figures at December 31, 1976)

LIABILITIES AND SHAREHOLDERS' EQUITY

	1977	1976 (restated) (note 1(b) (i))
Liabilities:		
Bank demand loans (note 6)	$ 1,370,000	$ 2,419,000
Accounts payable and accrued liabilities	398,000	1,235,000
	1,768,000	3,654,000
Liabilities of wholly-owned real estate subsidiary (note 2)	57,071,000	128,552,000
Minority interest (note 7)	1,316,000	1,374,000
Shareholders' equity (note 8):		
Capital	29,780,000	30,846,000
Contributed surplus	519,000	519,000
Retained earnings (deficit)	7,544,000	(2,384,000)
	37,843,000	28,981,000
	$97,998,000	$162,561,000

On behalf of the Board:

J. F. Kay
Director

H. F. Terry
Director

(See accompanying notes to consolidated financial statements)

HAMBRO CANADA LIMITED

CONSOLIDATED STATEMENT OF RETAINED EARNINGS
FOR THE YEAR ENDED DECEMBER 31, 1977

(with comparative figures for 1976)

	1977	1976 (restated) (note 1(b) (i))
Deficit, beginning of year:		
As previously reported	$ (1,242,000)	$ (1,313,000)
Adjustment in share of net earnings of Foodex Systems Limited (note 1(b) (i))	(1,142,000)	(900,000)
As restated	(2,384,000)	(2,213,000)
Earnings (loss) for the year	8,187,000	(171,000)
	5,803,000	(2,384,000)
Realization of excess of ascribed fair value of certain net assets over book value (note 8(a))	1,741,000	
Retained earnings (deficit), end of year	$ 7,544,000	$ (2,384,000)

(See accompanying notes to consolidated financial statements)

HAMBRO CANADA LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED DECEMBER 31, 1977

(with comparative figures for 1976)

	1977	1976 (restated) (note 1(b) (i))
Funds were provided from:		
Operations —		
Earnings before extraordinary items	$ 3,770,000	$ 1,275,000
Add charges (deduct credits) which do not represent a flow of funds:		
Excess of equity in net earnings of subsidiary companies over dividends received (1976 — $50,000)	(1,451,000)	(2,605,000)
Depreciation and amortization	1,443,000	1,002,000
Deferred income taxes	3,788,000	1,634,000
Minority interest net of dividends paid of $73,000 (1976 — $102,000)		13,000
Provision for loss on investments		578,000
	7,550,000	1,897,000
Sale of Corporation's investment in Canada Trustco Mortgage Company (net of applicable income taxes of $389,000) (note 3(a))	13,731,000	
Sale of subsidiary, Aetna-Goldale Investments Limited (95.3% owned at time of sale) (note 3(b))	760,000	
Proceeds on sale of rental properties and certain other assets of real estate subsidiary (note 2)	14,614,000	
Issuance of capital stock (note 8(b))	675,000	
Decrease in receivables	885,000	605,000
	38,215,000	2,502,000
Funds were applied to:		
Decrease in real estate liabilities less assets of wholly-owned subsidiary	36,752,000	1,356,000
Increase in investments (net)		408,000
Reduction in bank demand loan	1,049,000	20,000
Decrease in minority interest (net)	98,000	685,000
Decrease (increase) in accounts payable and accrued liabilities	837,000	(436,000)
Other (net)	(293,000)	209,000
	38,443,000	2,242,000
Excess of funds provided over applied (applied over provided)	(228,000)	260,000
Cash, short-term deposits and trading securities, beginning of year	2,065,000	1,805,000
Cash, short-term deposits and trading securities, end of year	$ 1,837,000	$ 2,065,000

(See accompanying notes to consolidated financial statements)

HAMBRO CANADA LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1977

1. ACCOUNTING POLICIES

The following is a summary of significant accounting policies followed in the preparation of these consolidated financial statements:

(a) Basis of consolidation —

The consolidated financial statements include the accounts of Hambro Canada Limited (the "Corporation") and those subsidiaries whose activities are integrated with those of the Corporation. Integrated activities are considered to be those of a holding, investment or real estate nature. All consolidated subsidiaries are wholly-owned.

In 1977 management instituted a programme to dispose of the operations of Peel-Elder Developments Limited and, as a result, the real estate assets, liabilities and results of that subsidiary's real estate operations have been summarized and segregated in the accompanying consolidated financial statements, as more fully described in note 2.

(b) Investments —

(i) Effectively controlled corporations:

The Corporation's policy is to account for investments in effectively controlled corporations, including any non-integrated subsidiaries, on the equity basis. Any difference between the purchase price of such investments and the estimated fair value of the underlying net tangible assets at dates of acquisition is left unamortized in the carrying value of the investments, provided that such difference arose prior to March 31, 1974 and further provided there is no evidence of long-term impairment in the value of the investment. In accordance with generally accepted accounting principles, such differences as may arise after March 31, 1974 (to December 31, 1977, — nil) are to be amortized over a period not exceeding forty years.

In 1977 the partially-owned non-integrated subsidiary, Foodex Systems Limited, retroactively changed its policy of accounting for developments costs. In reporting its share of earnings of the subsidiary, the Corporation has recognized this change in policy with the result that income for 1977 is \$247,000 (3¢ per share) greater than the amount that would otherwise be reported. Further, the Corporation has also given effect to this change retroactively with the result that net income for 1976 has been reduced by \$242,000 (4¢ per share) from the amount previously reported. As a further result, the carrying value of the investment in Foodex Systems Limited as at December 31, 1976 has been reduced and deficit increased by \$1,142,000 (December 31, 1975 — \$900,000), from the amounts perviously reported.

(ii) Other corporations:

Other corporations are carried at cost less, where applicable, provisions for loss in value.

(c) Trading securities —

Trading securities are carried at the lower of average cost and market as determined by comparing the aggregate cost of the portfolio with its aggregate quoted market value.

(d) Real estate activities —

(i) Land and house sales are recorded at the date of transfer of title. Condominium sales are recorded when the amount due on closing is received. Purchasers are required to pay not less than 15% of the purchase price on closing.

(ii) Income from commercial rental properties is recorded from date of occupancy. Income from residential rental properties is recorded from the date that the property reaches 75% occupancy. Interest, taxes, and other carrying costs are capitalized until such dates.

(iii) Land inventories are valued at cost plus interest, realty taxes and servicing costs provided the capitalization of such costs does not increase carrying value beyond market value. At December 31, 1977 carrying values in the aggregate are less than estimated market values. Interest and realty taxes of \$690,000 were capitalized during 1977 (1976 — \$1,244,000).

Housing inventories are valued at the lower of cost or estimated realizable market value.

(iv) Depreciation policy —

Rental properties:

Sinking fund method based on an estimated useful life of forty years which will write off the cost of the buildings in a series of equal annual instalments plus an interest factor of 5% compounded annually.

Apartment equipment:
10% or 15% straight-line method according to classification.
Other equipment:
20% or 30% declining balance method according to classification.
Shopping centre fixtures:
4% to 35% straight-line method according to classification.

(v) Interest —
Interest on general borrowing which is attributed to land and housing inventory and to rental properties under construction is added to the carrying value of these assets. Interest attributable to other assets is charged against operations as incurred.

(e) Deferred income taxes —
For income tax purposes, certain expenses are claimed in advance of charging such amounts in the financial statements. The resulting tax savings are set aside in the balance sheet as deferred income taxes to be credited to income in future years when expenses claimed for tax purposes are less than the related amounts charged in the financial statements.

2. PEEL-ELDER DEVELOPMENTS LIMITED ("PEEL-ELDER")
Peel-Elder is a real estate corporation engaged primarily in the leasing and management of shopping centres and in the administration of its mortgage portfolios. The real estate assets and liabilities of Peel-Elder, as summarized and segregated in the accompanying consolidated balance sheet in accordance with the basis of presentation described in note 1(a), are as follows:

	December 31 1977	1976
Real estate assets —		
Accounts receivable	$ 1,081,000	$ 1,697,000
Land, housing and building material inventories	15,714,000	23,099,000
Rental properties, equipment and fixtures, less accumulated depreciation of $3,087,000 in 1977 and $5,379,000 in 1976	31,515,000	78,915,000
Mortgages and other assets	23,381,000	18,083,000
Total assets	$71,691,000	$121,794,000
Real estate liabilities —		
Bank demand loans (see note 6)	$20,865,000	$ 25,250,000
Bank term loans		29,996,000
Mortgages and notes payable	22,200,000	59,193,000
Deferred income taxes	12,667,000	10,538,000
Other liabilities (excluding $23,750,000 in 1977 and $8,496,000 in 1976 due to the Corporation and an affiliate and eliminated on consolidation)	1,339,000	3,575,000
Total liabilities	$57,071,000	$128,552,000

(a) Mortgages and other assets consist primarily of first mortgages receivable bearing interest at rates varying from 8 to 10% per annum. The approximate amounts of principal due in the next five years are as follows: $2,900,000 in 1978, $4,200,000 in 1979, $1,600,000 in 1980, $4,500,000 in 1981 and $6,400,000 in 1982.

(b) Peel-Elder's mortgages and notes payable bear an average interest rate of 9% and the aggregate principal amounts due in the next five years are as follows:

	Mortgages and notes payable
1978	$ 769,000
1979	1,348,000
1980	629,000
1981	662,000
1982	495,000
	$3,903,000

The results of Peel-Elder's real estate operations are summarized as follows:

	1977	1976
Revenue:		
Land sales	$12,000,000	$12,104,000
Housing sales	3,280,000	7,231,000
Leasing and management of shopping centres	4,921,000	4,694,000
Other	1,833,000	1,097,000
Revenue from continuing operations	22,034,000	25,126,000
Leasing and management of apartments	7,096,000	7,988,000
Sale of building materials	5,070,000	5,834,000
Revenue from discontinued operations	12,166,000	13,822,000
Total revenue	$34,200,000	$38,948,000
Operating profit (see note below):		
Land sales	7,770,000	3,585,000
Housing sales	(397,000)	753,000
Leasing and management of shopping centres	3,399,000	3,366,000
Other	1,597,000	889,000
Operating profit from continuing operations	12,369,000	8,593,000
Leasing and management of apartments	3,069,000	3,362,000
Sale of building materials	211,000	174,000
Operating profit from discontinued operations	3,280,000	3,536,000
Total operating profit	15,649,000	12,129,000
General and administrative expenses	865,000	678,000
Interest (including interest of $371,000 ($811,000 in 1976) on advances from parent corporation)	9,026,000	10,957,000
Earnings (loss) before the undernoted items	5,758,000	494,000
Income tax — deferred	3,788,000	1,634,000
— current	70,000	39,000
	3,858,000	1,673,000
Profit (loss) before extraordinary items (note 12)	$ 1,900,000	$ (1,179,000)

The provision for income taxes in 1977 and 1976 arose from the sale of certain properties which had a cost for tax purposes which was less than the related carrying value in Peel-Elder's accounts.

Note: Operating profit has been computed after deduction of depreciation and amortization of $849,000 (1976 — $991,000).

During 1977 Peel-Elder disposed of certain investments comprising an aggregate of 2,832 apartment suites, a golf course and shares of wholly-owned subsidiaries involved in lumber and building supplies businesses. These disposals resulted in a gain on sale of $4,882,000 (including deferred income taxes recovered of $1,659,000) (see note 12).

A summary of these disposals is as follows:

Sale price of —	
Accounts receivable	$ 745,000
Inventories	1,456,000
Rental properties	49,743,000
Other assets	157,000
	52,101,000
Liabilities assumed —	
Mortgages payable	35,736,000
Other liabilities	1,751,000
	37,487,000
Cash proceeds received which were applied as a reduction of term bank loans	$14,614,000

The Corporation remains contingently liable as guarantor of a Peel-Elder mortgage (principal amount $4,403,000) on certain of the apartment suites disposed of during 1977. Against payment under the guarantee the Corporation is entitled to assume the position of the mortgagee. This mortgage fell due January 15, 1978 and remains unpaid. In the opinion of management of the Corporation, if it is called for payment under the guarantee, there will be no loss to the Corporation and accordingly no provision has been made in the financial statements for any loss under the guarantee.

3. Sale of Investments

(a) Canada Trustco Mortgage Company ("Canada Trustco")

Ontario Trust Company —

Pursuant to an offer made on October 5, 1976 by Canada Trustco Mortgage Company ("Canada Trustco"), the Corporation, effective December 15, 1976, acquired 600,860 Class A common shares of Canada Trustco in exchange for its holdings of 1,001,434 common shares of the subsidiary, Ontario Trust Company.

In 1977 the shares of Canada Trustco were sold to a company controlled by a member of the family of a then officer and director of the Corporation for a total cash consideration of $14,120,000 resulting in a gain of $1,921,000 (see note 12).

(b) Goldale Investments Limited (formerly Aetna-Goldale Investments Limited) —

On January 19, 1977, the Corporation sold, for a cash consideration of $760,000, its shareholdings in Aetna-Goldale Investments Limited, a 95.3% owned subsidiary, to a former officer and director of the Corporation, as well as others, for its consolidated carrying value resulting in neither profit nor loss. The assets of the subsidiary consisted principally of cash.

4. Mortgages, Loans and Other Receivables

Mortgages, loans and other receivables include a mortgage loan to a director and officer of $58,000.

5. Due Under Employee Share Purchase Plans

Non-interest bearing notes due from directors and/or senior officers in respect of shares sold under employee share purchase plans are as follows:

	December 31	
	1977	1976
Relating to shares of —		
The Corporation (100,000 shares)	$ 900,000	$ 900,000
Interpublishing (Canada) Limited, a former subsidiary (62,500 shares)	169,000	169,000
	$ 1,069,000	$ 1,069,000

The notes relating to shares of the Corporation, due January 31, 1978, were repaid in full in January 1978. The due dates of the notes relating to shares of Interpublishing (Canada) Limited were extended during 1977 and the balances owing are now due to the extent of $68,000 on January 31, 1979 (25,000 shares) and $101,000 on January 31, 1980 (37,500 shares).

Under the plans, the purchased shares are held by a trustee as collateral security for the notes. The shares are to be released to the employees as the related notes are repaid. The employees are individually liable for the amounts advanced to the trustee on their behalf; the obligation of the trustee to repay the notes is limited to amounts received from employees and proceeds realized on any sale of shares held as collateral.

6. Bank Loans

The Corporation's bank demand loan of $1,370,000 as well as bank demand loans of $20,865,000 of the wholly-owned real estate subsidiary, Peel-Elder (see note 2), are secured by debentures aggregating $80,850,000 supported by a specific mortgage on Peel-Elder's real estate holdings and a floating charge on all other property and assets of that subsidiary not subject to other specific mortgage and charge, by the pledging of substantially all of the Corporation's short-term deposits, trading securities and investments, and by the guarantee of the Corporation and substantially all consolidated subsidiaries.

Under the terms of the bank loan agreements the proceeds from real estate sales (other than sales of housing units in the ordinary course of business), sale of investments and from equity and long-term debt financing (other than in respect of normal real estate development operations) are to be applied by Peel-Elder in reduction of the term loans. In 1977, application of such proceeds resulted in a reduction of $29,996,000 (1976 — $12,779,000) in the amount of that subsidiary's term loans.

7. Minority Interest

Minority interest is summarized as follows:

	December 31 1977	December 31 1976
5½% cumulative, redeemable Series A preferred shares of the subsidiary, Hambro Corporation of Canada Limited, of the par value of $25 each	$ 1,316,000	$ 1,334,000
Minority interest in common shares of the former consolidated subsidiary		40,000
	$ 1,316,000	$ 1,374,000

The preferred shares of Hambro Corporation of Canada Limited are redeemable at a premium of 3½% to February 1, 1981, 2½% to February 1, 1986 and 1½% thereafter.

8. Shareholders' Equity

Capital of the Corporation is made up as follows:

Authorized —

525,000 non-voting, redeemable preference shares of no par value, ranking equally with common shares as to dividends and redeemable at $4.35 per share

10,000,000 common shares of no par value

	December 31 1977	December 31 1976
Issued —		
447,699 preference shares	$ 1,948,000	$ 1,948,000
7,103,867 common shares (1976 — 6,903,867 shares)	27,832,000	28,898,000
	$29,780,000	$30,846,000

(a) The Corporation's legal paid-up capital is $46,242,000. The difference of $16,462,000 between this amount and the amount at which capital is shown in the consolidated balance sheet resulted from lower accounting values being ascribed to common shares issued in certain business combinations which took place in prior years. The deficiency ($8,399,000) of total shareholder's equity as compared to legal capital must be eliminated before the Corporation would be technically in a position to pay dividends.
As a result of a 1972 business combination accounted for as a "reverse takeover", the stated capital for accounting purposes and the balance of the retained earnings account are subject to compensating adjustments as the excess of the ascribed fair value of the net assets acquired over their book value at date of acquisition is realized in subsequent transactions ($1,741,000 realized in 1977; nil in 1976). The unrealized increment subject to future adjustment totalled $377,000 at December 31, 1977.

(b) The following information is provided with respect to the Corporation's stock option plan for officers:
(i) An option was held by a former officer of the Corporation to acquire 30,000 shares at $9 per share exercisable on or before January 31, 1978. The quoted market value of the shares at the date on which the option was granted was $82,500 ($2.75 per share). The option expired on January 31, 1978;
(ii) During the year ended December 31, 1976, the Corporation issued options to officers and employees to purchase 100,000 shares of its authorized but unissued common shares at $2.75 per share which was the market value per share at date of grant. In March 1977, the Corporation issued further options to officers and employers to purchase an additional 100,000 common shares at $4.00 per share which also was the market value per share at date of grant. In July 1977, these options to purchase 200,000 shares were exercised for a total option price of $675,000. The aggregate quoted market value of the shares at the date on which the options were exercised was $820,000 ($4.10 per share).

9. Earnings Per Share

The calculations of earnings per common and preference shares are based on the weighted average of the equivalent number of Corporation shares outstanding through the year (1977 — 7,451,566 shares; 1976 — 7,351,566 shares).

10. Income Taxes

A substantial portion of the Corporation's income is from tax-exempt dividend income and equity in earnings of subsidiaries. Accordingly, income taxes provided (recoverable) in the consolidated statement of operations are less than (greater than) the amount obtained by applying statutory tax rates to earnings before income taxes and extraordinary items.

At December 31, 1977, the Corporation and certain subsidiaries had accumulated non-capital losses for income tax purposes of $5,321,000. Such losses are available to carry forward for tax purposes to apply against such income as may arise, and would otherwise be taxable, in future years. These losses, if not applied, will expire in the following years:

1978	—	$ 1,795,000
1979	—	3,269,000
1980	—	253,000
1981	—	4,000

In addition, the Corporation and certain consolidated subsidaries have realized and unrealized net capital loss carry-forwards of approximately $826,000 and $1,853,000 respectively. Such losses are available indefinitely to apply against future net taxable capital gains.

11. Anti-Inflation Program

The Corporation and its subsidiaries are subject to controls on prices, profits, employee compensation and shareholder dividends under the Federal Anti-Inflation Act. The legislation is due to expire on December 31, 1978. The Corporation and its subsidiaries believe they have complied with the legislation.

12. Extraordinary Items

Extraordinary items comprise the following:

	December 31	
	1977	1976
Reduction of income taxes resulting from the carry forward of prior years' losses	$ 277,000	$ 180,000
Gain on —		
Redemption of preferred shares of Hambro Corporation of Canada Limited		374,000
Sale of Corporation's investment in Canada Trustco Mortgage Company (net of applicable income taxes of $389,000)	1,921,000	
Sale of rental properties of Peel-Elder, including deferred income taxes recovered of $1,659,000 (see note 2)	4,882,000	
Write-down of investment in McIntyre Mines Limited (see below)	(2,663,000)	(2,000,000)
	$ 4,417,000	$ (1,446,000)

In 1976, in the opinion of management, a loss in value of the investment in McIntyre Mines Limited, which was other than temporary was sustained. Accordingly, the Corporation reduced the carrying value (cost) of this investment at December 31, 1976 by $2,000,000. In 1977, in the opinion of management, a further loss was sustained. Accordingly, the Corporation wrote down the carrying value at December 31, 1977 by a further $2,663,000 to its then quoted market value.

13. Supplementary Information

(a) The aggregate direct remuneration of directors and senior officers paid or payable by the Company and its consolidated subsidiaries in the year ended December 31, 1977 was $260,000 (1976 — $393,500). In addition, aggregate direct remuneration paid or payable to such directors and senior officers by unconsolidated subsidiaries in the year ended December 31, 1977 was $138,000 (1976 — $215,000).

(b) Under the terms of an agreement dated August 2, 1976 with a former officer of the Corporation, $300,000 was paid by each of the Corporation and Peel-Elder into a Trust Fund to be held in the Trust together with interest accruing thereon to secure payments due under an employment contract and a retirement arrangement. Such amounts were being amortized over a four-year period. As at December 31, 1977, the officer of the Corporation retired and accordingly the balance in the Trust Fund including accrued interest of $66,134, was disbursed to him on January 11, 1978 in settlement of claims under such contract and arrangement. Unamortized balances of $619,032 remaining in the accounts of the Corporation and Peel-Elder were written off in 1977.

14. Subsequent Event

The Corporation indicated that it would announce on February 20, 1978, a public Tender Offer to purchase up to 1,200,000 shares of North Canadian Oils Limited at $10.50 (U.S.) per share. North Canadian Oils Limited, at the time of the announcement, owned 49.3% of the outstanding common shares of the Corporation.

The Corporation has arranged to borrow up to a maximum of $15,400,000 Cdn. or, at its option, U.S. $13,750,000 from a Canadian chartered bank at the prime bank lending rate plus 1% for Canadian funds and at the U.S. dollar base rate plus 1% for U.S. funds. The bank loan will be secured by the pledge of the North Canadian Oils Limited shares purchased under the Tender Offer, and by a further guarantee of Peel-Elder to an amount of $15,400,000. The loan is to be repaid within five years.

AUDITORS' REPORT

To the Shareholders of
Hambro Canada Limited:

We have examined the consolidated balance sheet and consolidated summary of investments of Hambro Canada Limited as at December 31, 1977 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. For Hambro Canada Limited, and for those subsidaries of which we are auditors, our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. We have relied on the reports of the auditors who have examined the financial statements of all other consolidated subsidiaries.

In our opinion, these consoidated financial statements present fairly the financial position of the company as at December 31, 1977 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied, after giving retroactive effect to the change adopted by a subsidiary in the basis of accounting for development costs as explained in note 1(b) (i), on a basis consistent with that of the preceding year.

Toronto, Canada,
February 18, 1978.

Clarkson, Gordon & Co.
Chartered Accountants

HAMBRO CANADA LIMITED

CONSOLIDATED SUMMARY OF INVESTMENTS
DECEMBER 31, 1977

(with comparative figures as at December 31, 1976)

Foodex Systems Limited (note B)	
Canada Trustco Mortgage Company Class A common (note C)	
McIntyre Mines Limited (see note 12 to consolidated financial statements)	
Other	
Total investments	

(See accompanying notes to consolidated summary of investments)

1977				1976			
Shares controlled		Quoted market value (note A)	Carrying value	Shares controlled		Quoted market value (note A)	Carrying value
Number	% interest			Number	% interest		
2,625,141	57.7	$12,732,000	$21,131,000	2,625,141	58.9	$14,438,000	$19,680,000
				600,860	8.6	12,618,000	11,810,000
75,600	3.1	1,945,000	1,945,000	75,600	3.1	2,306,000	4,608,000
		93,000	42,000			351,000	61,000
		$14,770,000	$23,118,000			$29,713,000	$36,159,000

HAMBRO CANADA LIMITED

NOTES TO CONSOLIDATED SUMMARY OF INVESTMENTS

DECEMBER 31, 1977

A. VALUES OF INVESTMENTS

The quoted market values shown do not necessarily represent the value of entire blocks of investment holdings which may be more or less than the value indicated by market quotations. In the opinion of management:

(i) there has been no long-term impairment in the underlying value of any of the Corporation's investments which has not been provided for, and

(ii) the aggregate value thereof is not less than the aggregate amount at which such investments are carried.

B. FOODEX SYSTEMS LIMITED

Foodex is an operating and holding corporation which is primarily engaged in the restaurant business. A 62.8% owned subsidiary owns and operates racetracks in the United States.

Certain stock options on treasury shares of Foodex are held by employees of that company. In October 1977, a portion of these options were exercised resulting in a reduction of the Corporation's percentage of shares controlled from 58.9% to 57.7%. Had the remaining options been exercised at December 31, 1977 the Corporation's percentage of shares controlled at that date would have been further reduced to 56.1%.

Additional information relating to the Corporation's investment in Foodex is as follows:

	1977	1976
The Corporation's proportion 57.7% (1976 — 58.9%) of net assets (including share of $7,146,000 goodwill in Foodex's accounts) (see note below)	$15,303,000	$13,734,000
Adjustment to carrying value, attributed to additional goodwill and other intangible assets not requiring amortization (reduced in 1977 through issue of shares under option from Foodex treasury)	5,828,000	5,946,000
Carrying value at December 31 (see note below)	$21,131,000	$19,680,000
Revenue and net income for the year ended December 31 —		
Revenue	73,562,000	74,035,000
Net income before minority interest	3,311,000	3,613,000
Minority interest in income of subsidiaries	352,000	685,000
Net income for the year	$ 2,959,000	$ 2,928,000
The Corporation's share of net income included in consolidated earnings for the year ended December 31 less $280,000 in 1977 being dilution of equity on issue of treasury shares by Foodex (see note below)	$ 1,451,000	$ 1,725,000

Note: As a result of the retroactive application by Foodex of a change in accounting policy with respect to deferred market development and preopening restaurant costs, the Corporation's proportion of net assets and the carrying value of its investment at December 31, 1976 has been reduced by $1,142,000 from amounts previously reported. Further the Corporation's share of Foodex's net earnings for 1976 has been decreased by $242,000 from amounts previously reported and its share of 1977 earnings has been increased by $247,000 from the amount that would otherwise have resulted (see note 1(b)(i) to the consolidated financial statements).

(i) Dividends —

Under the terms of long-term debt agreements Foodex is restricted in the amount of dividends it may pay to its shareholders.

(ii) Anti-Inflation Program —

Foodex is subject, under the federal government's Anti-Inflation Program to mandatory compliance with the guidelines which control prices, profit margins, employee compensation and shareholder dividends. Management of Foodex believe they have complied with this legislation which is to expire on December 31, 1978.

(iii) Legal actions —

A Canadian subsidiary of Foodex, Albemont Limited, and five other corporations were named in 1975 as defendants in a counterclaim made by Her Majesty The Queen in right of Canada for damages and costs in an unstated amount arising out of alleged bidding practices and/or a conspiracy with respect to same said to be contrary to honest industrial usage in Canada. Counsel for Foodex understand that this action will not be proceeded with until criminal proceedings involving certain of the other defendants to the counterclaim have been disposed of and that it is possible that the action may not proceed at all as against Albemont Limited. Counsel are not able to advise at this stage what, if any, liability the corporation may incur in this action. Management of Foodex and of Albemont Limited have no knowledge of any wrongdoing by Albemont Limited in connection with the matters referred to in the counterclaim or of the evidence, if any, supporting the allegations made against Albemont Limited, and accordingly, no provision has been made in the consolidated financial statements of Foodex for any liability in connection with this action.

C. Canada Trustco Mortgage Company —
Ontario Trust Company

As explained in note 3(a) to the consolidated financial statements, the Corporation's previous investment in shares of Ontario Trust Company was exchanged in 1976 for Class A common shares of Canada Trustco Mortgage Company which were sold in 1977.

HAMBRO CANADA LIMITED Tn

And Subsidiary Corporations

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

For the Six Months Ended June 30, 1977
(With comparative figures for 1976)
(Unaudited)

	1977 $('000)	1976 $('000)
Funds were provided from:		
Sale of subsidiary, Aetna-Goldale Investments Limited (95.3% owned at time of sale)	$ 760	$
Sale of 100,000 Canada Trustco Mortgage Company shares	2,350	
Less receivable at June 30, 1977	(2,350)	
Decrease in accounts receivable	554	461
Decrease in real estate assets less real estate liabilities of wholly owned subsidiary	1,246	1,176
Reduction in income taxes due to losses carried forward	39	91
Other (net)	72	71
Total funds provided	2,671	1,799
Funds were applied to:		
Operations —		
(Earnings) for the period before extraordinary items	(563)	(812)
Credits (charges) which do not represent flows of funds:		
Equity in earnings of unconsolidated subsidiaries	736	1,361
Depreciation and amortization	(583)	(490)
Deferred income taxes	625	655
Minority interest net of dividends paid		(9)
	215	705
Decrease in bank demand loans	1,182	436
Decrease in accounts payable	1,259	160
Reduction in minority interest	56	(6)
Other (net)	14	82
Total funds applied	2,726	1,377
Excess of funds provided over applied (applied over provided)	(55)	422
Cash, bank deposit receipts and trading securities at beginning of year	2,065	1,805
Cash, bank deposit receipts and trading securities at June 30	$ 2,010	$ 2,227

Note: The real estate operations have been segregated and summarized in the above consolidated statement of changes in financial position. The 1976 comparative figures have been restated accordingly.

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HAMBRO CANADA LIMITED

INTERIM REPORT

for the Six Months Ended June 30, 1977

To the shareholders

The Consolidated Statement of Operations for the six months ended June 30, 1977 shows earnings of $993,000 compared to earnings of $903,000 for the comparable period in 1976.

As has been previously announced agreements have been entered into for the sale of the residential land holdings of Peel-Elder Developments Limited in Brampton and for the sale of that company's apartment units in Brampton and North York.

An agreement has also been entered into for the sale of your Company's shareholding in Canada Trustco Mortgage Company. 100,000 shares have been taken down under that agreement and if the option on the balance is exercised, the remainder will be taken between now and October 31, 1977.

The contribution of FOODEX Systems Limited remains below that of last year reflecting the difficulties encountered by its subsidiary Gibraltar Pari-Mutuel, Inc. in the first quarter. As reported earlier, severe winter weather and strikes at both tracks caused results to be significantly below those for the same period last year. However the results of the second half are anticipated to be substantially better than those for the second half of 1976.

In the PONDEROSA STEAK HOUSE Division for the 6 months ended June 30, 1977, revenues were $22,962,000, an increase of 6% over 1976, while earnings were $1,188,000 or 27¢ per share an increase of 18%. There are now 91 Steak Houses open and a minimum of 6 more units will be open or under construction by year end.

In the FRANK VETERE'S PIZZERIA and TAVERN Division the five units now open continue to perform most satisfactorily and it is planned to have at least seven more open or under construction by year end.

On Behalf of the Board

K A Roberts

K. A. Roberts
Deputy Chairman

Toronto, Canada
August 25, 1977.

HAMBRO CANADA LIMITED

and Subsidiary Corporations

CONSOLIDATED STATEMENT OF OPERATIONS

for the Six Months Ended June 30, 1977
(With comparative figures for 1976)
(Unaudited)

	1977 $('000)	1976 $('000)
Equity in earnings of unconsolidated subsidiaries —		
Foodex Systems Limited	$ 736	$ 985
Ontario Trust Company (sold in 1976)		376
Loss on real estate operations (see note below)	(726)	(694)
Dividends and interest (including interest income on advances to wholly-owned real estate subsidiary of $362,000 in 1977 ($398,000 in 1976))	904	579
Profit on security trading	12	18
Gain on sale of investment	54	
Other	185	217
Earnings before the undernoted	1,165	1,481
General and administrative expenses	444	348
Interest on bank indebtedness	80	111
Minority interest	37	73
	561	532
Earnings before income taxes and extraordinary items	604	949
Income taxes	41	137
Earnings before extraordinary items	563	812
Extraordinary items —		
— Gain on sale of part of investment in Canada Trustco Mortgage Company	385	
— Reduction of income taxes resulting from the carry-forward of prior years' losses	39	91
— Other	6	
	430	91
Earnings for the period	$ 993	$ 903
Earnings per common share and preference share:		
Earnings before extraordinary item	$ 0.08	$ 0.11
Earnings for the period	$ 0.14	$ 0.12

Note: The real estate operations of the company's wholly-owned subsidiary, Peel-Elder Developments Limited have been summarized and segregated in the above consolidated statement of operations. The 1976 comparative figures have been restated accordingly. The results of real estate operations are summarized below:

	Six months ended June 30 1977	1976
Revenue from sale and rental of real estate and sale of building materials	$11,949	$13,986
Cost of sales and operating expenses	8,960	10,562
Depreciation	556	490
Interest	3,784	4,283
	13,300	15,335
Loss before provision for income taxes	1,351	1,349
Provision for income tax recovery	(625)	(655)
Loss for the period to June 30	$ 726	$ 694